

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SSO-00 INRE-00 USIE-00 AID-05
CEA-01 CIAE-00 COME-00 EB-08 EA-10 FRB-03 INR-07
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O R 161648Z NOV 77
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USOECD

USEEC

PASS: CEA FOR SHAFER; TREASURY FOR FAUVER; FED

E.O. 11652: N/A
TAGS: OECD, ECON
SUBJECT: SHORT-TERM FORECASTERS MEETING, NOVEMBER 14-15,
1977

1. SUMMARY: SHORT-TERM FORECASTS (STF) FOUND THEMSELVES
HEAVILY INVOLVED IN NORMATIVE PROJECTIONS AND NATIONAL
OBJECTIVES RATHER THAN THE STANDARD NO-POLICY-CHANGE
TECHNICAL FORECASTS, MUCH TO THE DISMAY OF SOME MEM-
BERS OF THE SECRETARIAT. SEVERAL COUNTRIES CLAIMED
1978 OFFICIAL FORECASTS WERE NOT YET AVAILABLE AND FOR
THIS REASON, GERMANY, FOR ONE, WAS UNWILLING TO PROVIDE
1978 FIGURES APART FROM NATIONAL TARGETS ALREADY SUB-
MITTED FOR EPC. JAPAN EMPHASIZED DEFLATIONARY IMPACT
OF RECENT YEN APPRECIATION, BUT STOOD FIRM IN PROJECT-
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ING 6 PERCENT GNP GROWTH FOR 1978 WITHOUT FURTHER POLICY
STIMULUS. IN GENERAL, NATIONAL DELEGATIONS ARE MORE
OPTIMISTIC ABOUT 1978 DEVELOPMENTS AND EFFECTIVENESS OF
RECENT POLICY MEASURES THAN IS SECRETARIAT. PROMISED
POST-MORTEM ON RECENT OECD SECRETARIAT'S PERFORMANCE
WAS NOT READY, BUT WILL BE CIRCULATED SOON TO BE DIS-
CUSSED POSSIBLY AT A SPECIAL MEETING OF THE STF.

2. GNP AND DOMESTIC DEMAND: NATIONAL DELEGATIONS AND THE SECRETARIAT GENERALLY AGREED ON 1977 OUTCOMES FOR THE OECD AS A WHOLE. THERE WERE MINOR DISTRIBUTIONAL DIFFERENCES MAINLY FOR JAPAN AND ITALY (SEE TABLES 1 AND 2 BELOW) WHERE THE SECRETARIAT WAS BELOW COUNTRY ESTIMATES BY 0.4 PERCENTAGE POINTS OR MORE. DIVERGENCES EXPANDED FOR THE 1978 FORECAST AS AGGREGATE OECD-WIDE NATIONAL PROJECTIONS (EXCLUDING GERMANY) YIELDED AN EXPECTED 4.3 PERCENT GROWTH IN GNP (3.9 DOMESTIC DEMAND) VS. 3.6 PERCENT ACCORDING TO SECRETARIAT FORECASTS (3.3 ON DOMESTIC DEMAND). SOME OF THE DIFFERENCES CAN BE EXPLAINED BY TARGET OR NORMATIVE ELEMENTS IN THE COUNTRY "FORECASTS" (SEE PARA. 5), BUT MUCH IS DUE TO DIFFERENT ASSUMPTIONS ABOUT EFFECTS OF CURRENT POLICY ACTIONS (WITH NATIONAL DELS CONSISTENTLY MORE OPTIMISTIC THAN THE SECRETARIAT) AND TO DIFFERENT ASSESSMENTS AS TO THE BEHAVIOR OF LESS CONTROLLABLE VARIABLES SUCH AS THE INFLATION RATE. IT WAS GENERALLY AGREED THAT THE UNEMPLOYMENT SITUATION WOULD BE LITTLE, IF ANY, IMPROVED IN 1978 EVEN UNDER COUNTRY ASSUMPTIONS.

3. PRICES: VIRTUALLY ALL NATIONAL DELS (EXCEPT U.S. AND JAPAN) ESTIMATED THEIR RATES OF INFLATION BELOW SECRETARIAT FORECASTS, MOST CLEARLY SEEN IN OECD-EUROPE LIMITED OFFICIAL USE

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WHERE COUNTRY FORECASTS AGGREGATED TO A 7.9 PERCENT RISE (CPI AND GNP DEFLATOR) WHEREAS THE SECRETARIAT PROJECTS 8.9 PERCENT (SEE TABLE 3).

4. TRADE AND BALANCE OF PAYMENTS: TRADE FORECAST DISCUSSION SHOWED MIXED PICTURE WITH ABOUT AN EQUAL NUMBER OF COUNTRIES DIFFERING WITH THE SECRETARIAT ON EITHER SIDE OF THE SECRETARIAT FORECAST (SEE TABLE 4). FOR IMPORTS, COUNTRIES PROJECTED OECD-WIDE GROWTH OF 4-3/4 PERCENT IN VOLUME VS. 4 PERCENT BY THE SECRETARIAT. THE U.S., CANADA AND SOME SMALLER COUNTRIES PROJECTED LOWER IMPORTS THAN THE SECRETARIAT, WHEREAS JAPAN, FRANCE, ITALY AND THE UK AMONG LARGER COUNTRIES FORECAST LARGER IMPORTS. FOR EXPORTS, THE DIFFERENCES WERE NEGLIGIBLE BETWEEN COUNTRY AND SECRETARIAT FORECASTS, 5-3/4 PERCENT VOLUME GROWTH VS. 5-1/2. COUNTRY PROJECTIONS YIELD AN AGGREGATE OECD CURRENT ACCOUNT DEFICIT OF \$30 BILLION, VIRTUALLY UNCHANGED FROM 1977 WHEREAS THE SECRETARIAT (ON THE BASIS PRINCIPALLY OF LOWER GROWTH RATES) IS PROJECTING AN IMPROVEMENT TO \$25

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BILLION. ALTHOUGH MOST DEFICIT COUNTRIES EXPRESSED CONCERN ABOUT THE SIZE AND OFTEN THE EXISTENCE OF ITS DEFICIT, THERE SEEMED TO BE NO SENSE OF ALARM BY COUNTRIES WHOSE PROJECTED DEFICITS SHOW LITTLE, IF ANY, RETREAT FROM 1977 LEVELS (E.G., U.S., CANADA, AUSTRALIA, AUSTRIA, DENMARK, IRELAND, NEW ZEALAND, SWEDEN). PORTUGAL, SPAIN AND TURKEY ACKNOWLEDGED SERIOUS BOP DIFFICULTIES WHICH WERE BEING ADDRESSED IN THE CONTEXT OF CURRENT POLICY PACKAGES AND SOCIAL PACTS.

5. TARGETS VS. FORECASTS: IN SUMMING UP, THE SECRETARIAT (FREEMAN) NOTED THE DISTINCTLY CHANGED NATURE OF THIS STF MEETING IN WHICH A LARGE NORMATIVE (OR POLICY-DEPENDENT, OR TARGET) ELEMENT WAS INTRODUCED AS OPPOSED TO THE TECHNICAL MOST-LIKELY-OUTCOME FORECASTS (BASED ON A NO POLICY CHANGE ASSUMPTION) WHICH CHARACTERIZED PREVIOUS MEETINGS. HE ATTRIBUTED THIS CHANGE TO THE NEW NATIONAL OBJECTIVES EXERCISE BEING UNDERTAKEN FOR THE FIRST TIME BY THE EPC, AND REGRETTED THAT

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THE PRODUCT OF THE STF GROUP WOULD BE LESS USEFUL BECAUSE OF IT. NATIONAL DELEGATIONS (OF MAJOR COUNTRIES SPECIFICALLY) WERE ASKED TO COMMENT ON THE EXTENT OF NORMATIVE ELEMENTS IN THEIR FORECASTS. THE U.S., CANADA AND THE UK STATED THAT, IF NECESSARY, ADDITIONAL POLICY MEASURES WOULD BE TAKEN TO MEET THE TARGET. GERMANY SAID IT EXPECTED TO MEET ITS TARGET FOR 1978 (4-1/2 PERCENT GROWTH GNP), BUT IF CERTAIN ASSUMPTIONS (MAINLY THE RELEASE OF INVESTMENT FUNDS FOR NUCLEAR ENERGY PLANTS) WERE NOT REALIZED, THE TARGET WOULD BE AMBITIOUS -- ADDING THAT THE GERMAN AUTHORITIES CURRENTLY SAW NO LEEWAY FOR FURTHER EXPANSIONARY MEASURES. JAPAN ARGUED THAT ITS FORECAST WAS NON-NORMATIVE, BUT THAT THE FORECAST HAD BEEN PREPARED BEFORE THE RECENT APPRECIATION OF THE YEN, WHICH, HE CLAIMED, WOULD HAVE DEFLATIONARY IMPACT ON THE ECONOMY. THE SUGGESTION THAT THERE IS SUBSTANTIAL DOWNSIDE RISK IN FORECAST WAS NOT ACCEPTED BY THE JAPANESE DEL, WHO SAID THE RECENTLY ANNOUNCED STIMULUS PACKAGE WOULD BE VIGOROUSLY APPLIED AND WAS EXPECTED TO BE SUFFICIENT TO REACH THE 6 PERCENT CY78 FORECAST. (FYI -- THE JAPANESE DEL PRESENTED AN ARGUMENT BASED ON DIFFERENTIAL RATES OF INFLATION SINCE THE SMITHSONIAN ACCORDS, CONCLUDING THAT AN APPROPRIATE YEN-DOLLAR CROSS RATE WOULD BE 280 YEN EQUALS ONE DOLLAR. HE CONCEDED, HOWEVER, THAT THE LARGE CURRENT ACCOUNT SURPLUS PUT UPWARD PRESSURE ON THE ACTUAL YEN RATE. END FYI)

6. TABLES:

TABLE 1

GNP

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A COMPARISON BETWEEN COUNTRIES'
AND
SECRETARIAT FORECASTS

PERCENTAGE CHANGES FROM PREVIOUS YEAR

	1977	1978		
COUN- TRIES (B)	SECRE- TARIAT	COUN- TRIES (B)	SECRE- TARIAT	
UNITED STATES	5.0	4.8	4-3/4 TO 5	4.3
JAPAN	6.3	5.9	6.1	5.2
GERMANY	3.0	3.1	---	3.1

FRANCE (GDP)	3.1	3.0	4.3	3.2
UNITED KINGDOM	0.4	0.3	3.0	3.0
(GDP)				

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CANADA	2.3	2.2	5.0	3.3
ITALY (GDP)	2.2	1.8	2.0	1.1

TOTAL SMALLER
EUROPEAN COUN- 2.0 1.6 2.2 2.0
TRIES (A)

AUSTRALIA (GDP)	.5	1.2	5.0	2.3
NEW ZEALAND (GDP)	-1.0	-1.3	1.0	2.0

TOTAL OECD	3.8	3.6	4.3	3.6
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(A) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY.

(B) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES
WHEN COUNTRIES' FORECASTS WERE NOT AVAILABLE.

TABLE 2

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FINAL DOMESTIC DEMAND

COMPARISON BETWEEN COUNTRIES'
AND
SECRETARIAT FORECAST

PERCENTAGE CHANGES FROM PREVIOUS YEAR

	1977	1978			
	COUN-	SECRE-	COUN-	SECRE-	
	TRIES' (B)	TARIAT	TRIES' (B)	TARIAT	
UNITED STATES	5.0	5.1	4-3/4 TO 5	4.1	
JAPAN	5.1	4.4	6.1	5.3	
GERMANY	---	2.9	---	3.2	
FRANCE	2.5	2.3	3.7	2.8	
UNITED KINGDOM	-1.7	-1.6	3.2	2.3	
CANADA	2.4	2.3	3.9	2.9	
ITALY	2.3	1.9	1.6	0.4	

TOTAL SMALLER

EUROPEAN COUN-	2.1	1.8	1.0	1.1
TRIES (A)				

AUSTRALIA	---	1.2	---	2.5
NEW ZEALAND	-1.5	-1.5	0.7	0.7

TOTAL OECD	3.5	3.4	3.9	3.3
------------	-----	-----	-----	-----

(A) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY.

(B) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES
WHEN COUNTRIES' FORECASTS WERE NOT AVAILABLE.

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TABLE 3

GNP DEFLATORS

COMPARISON BETWEEN COUNTRIES'
AND
SECRETARIAT FORECASTS

PERCENTAGE CHANGES FROM PREVIOUS YEAR

	1977	1978		
	COUN-	SECRE-	COUN-	SECRE-
	TRIES' (B)	TARIAT	TRIES' (B)	TARIAT
UNITED STATES	5-3/4	5.6	6-1/4	6.0
JAPAN	5.9	5.4	5.6	5.4
GERMANY	3-1/2	3.9	---	4.2
FRANCE (GDP)	9.2	9.2	7.9	8.5
UNITED KINGDOM (GDP)	13.3	14.3	8.5	11.8

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CANADA	6.8	6.6	6.3	6.3
ITALY (GDP)	18.5	18.5	12.0	12.8

TOTAL SMALLER
EUROPEAN COUN- 10.5 10.8 9.5 10.6
TRIES (A)

AUSTRALIA (GDP)	10-1/2	11.0	7-1/2	10.3
NEW ZEALAND (GDP)	14.0	14.7	14.0	12.8

TOTAL OECD 7.5 7.5 6.9 7.2

(A) INCLUDING ICELAND, LUXEMBOURG, PORTUGAL AND TURKEY.

(B) THE SECRETARIAT FIGURES WERE USED FOR AGGREGATES
WHEN COUNTRIES' FORECASTS WERE NOT AVAILABLE.

TABLE 4
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FORECAST CHANGES IN TOTAL TRADE VOLUMES
AND
EXPORT MARKETS

8PERCENTAGE CHANGES FROM PRECEDING PERIOD;
SEASONALLY ADJUSTED ANNUAL RATES)

	IMPORT VOLUME		EXPORT VOLUME	
	SECRE-		SECRE-	
	COUNTRY	TARIAT	COUNTRY	TARIAT
	1978	1978		
UNITED STATES	3	5	6	5-1/4
CANADA	3-1/2	4-1/4	6-1/2	5-1/2
JAPAN	7-3/4	5-1/2	2-1/2	6
FRANCE	7	5	8	5-3/4
GERMANY	--	5	--	5
ITALY H	4-1/2	3-3/4	7	5-1/4
UNITED KINGDOM	8-3/4	4-1/4	5-1/2	6-1/2

SEVEN LARGER

COUNTRIES (A) 5-1/4 4-1/2 5-1/2 5-1/2

OTHER OECD 2-1/4 2-1/4 6-3/4 5-1/2

TOTAL OECD 4-3/4 4 5-3/4 5-1/2

(A) CANADA, FRANCE, GERMANY, ITALY, JAPAN, THE UNITED
KINGDOM, AND THE UNITED STATES.

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TABLE 5

CURRENT ACCOUNT (\$ BILLION)

	1977		IJ 1978	
	SECRE-		SECRE-	
COUNTRIES	COUNTRY	TARIAT	COUNTRY	TARIAT
UNITED STATES	-18.0	-18.0	-20.0	-21.0
JAPAN	9.0	10.0	6.0	10.0
GERMANY	2.5	3.5	N/A	2.9
FRANCE	N/A	-3.2	N/A	-2.2
UNITED KINGDOM	0.6	0.6	2.7	3.2
CANADA	-4.8	-4.2	-3.8	-4.4
ITALY	0.3	0.3	1.4	1.4
PORTUGAL	-1.2	-1.3	N/A	-1.2
SPAIN	-3.0	-3.3	-2.8	-2.9
TURKEY	-2.9	-2.9	-1.1	N/A

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OTHER OECD	-14.3	-13.5	-10.1	-9.6
TOTAL OECD	-25.8	-24.0	-28.8	-24.9

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Disposition Approved on Date:
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